

ST. MARY PARISH WATER AND SEWER COMMISSION NO. 2

Annual Component Unit Financial Statements
With Independent Auditors' Report

and

Report on Internal Control Over Financial Reporting
and Compliance and Other Matters

For the Years Ended September 30, 2011 and 2010

Under provisions of state law this report is a public document. A copy of the report has been submitted to the entity and other appropriate public officials. The report is available for public inspection at the Baton Rouge office of the Legislative Auditor and, where appropriate, at the office of the parish clerk of court.

Release Date MAR 28 2012

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INDEPENDENT AUDITOR'S REPORT

To the Board of Commissioners
St. Mary Parish
Water and Sewer Commission No. 2
Bayou Vista, Louisiana

We have audited the accompanying financial statements of the business-type activities and the major fund of St. Mary Parish Water and Sewer Commission No. 2, a component unit of St. Mary Parish, as of and for the years ended September 30, 2011 and 2010, which collectively comprise the Commission's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the St. Mary Parish Water and Sewer Commission No. 2's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

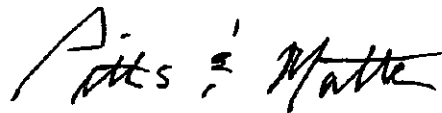
In our opinion, the 2011 and 2010 financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and the major fund of St. Mary Parish Water and Sewer Commission No. 2 as of September 30, 2011 and 2010 and the respective changes in financial position and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The Commission has not presented Management's Discussion and Analysis that the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be part of, the basic financial statements.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 27, 2012 on our consideration of St. Mary Parish Water and Sewer Commission No. 2's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the St. Mary Parish Water and Sewer Commission No. 2's basic financial statements. The schedules and statistical data listed in the table of contents as Other Supplemental Schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information, has not been subjected to the auditing procedures applied in the audit of the financial statements, and accordingly, we express no opinion on them.

February 27, 2012



CERTIFIED PUBLIC ACCOUNTANTS

St Mary Parish Water and Sewer Commission No. 2
State of Louisiana
Comparative Statement of Net Assets
Water and Sewer Enterprise Fund
September 30, 2011 and 2010

	<u>2011</u>	<u>2010</u>
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 513,767	\$ 431,535
Investments	1,346,891	1,338,369
Accounts receivable	164,805	159,628
Inventory	102,505	91,244
Prepaid expenses	14,005	14,092
Total current assets	<u>2,141,973</u>	<u>2,034,868</u>
RESTRICTED ASSETS (cash and investments)		
General obligation bond debt service cash	1,867	11,336
General obligation bond debt service investments	140,850	145,662
Customer meter deposits cash	29,428	23,683
Customer meter deposits investments	161,954	161,851
Total restricted assets	<u>334,099</u>	<u>342,532</u>
NONCURRENT ASSETS		
Property, Plant and Equipment (net of accumulated depreciation)	4,608,721	4,265,244
Prepaid water tower maintenance	24,218	63,671
Unamortized debt issuance costs,	14,250	15,546
Investment in Berwick-Bayou Vista Joint Waterworks Commission	540,612	502,534
Total noncurrent assets	<u>5,187,801</u>	<u>4,846,995</u>
TOTAL ASSETS	<u>\$ 7,663,873</u>	<u>\$ 7,224,395</u>

	<u>2011</u>	<u>2010</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES (payable from current assets)		
Accounts payable and accrued expenses	\$ 51,052	\$ 15,486
Contracts payable	144,331	-
Retainage payable	25,399	-
Due to other governmental units	130,318	123,390
CURRENT LIABILITIES (payable from restricted assets)		
Bonds due within one year	65,000	60,000
Accrued interest on bonds	5,284	5,284
Customer meter deposits	187,239	184,534
Total current liabilities	<u>608,623</u>	<u>388,694</u>
LONG-TERM DEBT		
Bonds due after one year	<u>895,000</u>	<u>960,000</u>
Total liabilities	<u>1,503,623</u>	<u>1,348,694</u>
NET ASSETS		
Invested in capital assets, net of related debt	3,657,687	3,255,506
Restricted for		
Debt service	142,717	156,998
Unrestricted	<u>2,359,846</u>	<u>2,463,197</u>
Total net assets	<u>6,160,250</u>	<u>5,875,701</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 7,663,873</u>	<u>\$ 7,224,395</u>

St Mary Parish Water and Sewer Commission No 2
State of Louisiana
Comparative Statement of Revenues, Expenses and Changes in Net Assets
Water and Sewer Enterprise Fund
Years ended September 30, 2011 and 2010

	<u>2011</u>	<u>2010</u>
OPERATING REVENUES		
Charges for water service	\$ 452,856	\$ 453,178
Charges for sewer service	425,742	427,325
Delinquent charges	19,312	19,783
Meter installation, reconnects, permits, etc	18,629	20,327
Safe water collection fees	530	-
Garbage collection fees	<u>19,703</u>	<u>16,431</u>
TOTAL OPERATING REVENUES	<u>936,772</u>	<u>937,044</u>
OPERATING EXPENSES		
Direct operating costs		
Cost of water purchases	282,846	237,743
Sewerage treatment fees	252,143	250,074
Repair and maintenance – water system	101,279	161,478
Repair and maintenance – sewerage system	86,258	69,402
Personal services		
Clerical salaries	55,276	53,030
Other salaries	59,718	57,540
Board meetings	16,021	15,696
Retirement contributions	14,354	13,503
Health insurance	27,688	23,891
Operating services		
Insurance	23,512	35,134
Accounting fees	17,697	16,577
Engineering fees	1,200	2,435
Computer consulting	1,855	1,371
Amortize tower maintenance	39,453	39,453
Utilities and telephone	26,587	26,981
Vehicle expense	7,505	5,923
Legal fees	332	-
Materials and supplies		
Office expense	3,799	4,353
Postage	6,109	6,898
Advertising	2,016	812
Miscellaneous	5,238	5,126
Depreciation		
Water System	124,096	118,355
Sewer System	<u>123,057</u>	<u>121,040</u>
TOTAL OPERATING EXPENSES	<u>\$ 1,278,039</u>	<u>\$ 1,266,815</u>

	<u>2011</u>	<u>2010</u>
INCOME (LOSS) FROM OPERATIONS	<u>\$ (341,267)</u>	<u>\$ (329,771)</u>
NON-OPERATING REVENUE (EXPENSES)		
Ad valorem taxes		
Operations and maintenance	590,986	579,943
Debt service	96,207	110,465
Interest income	14,539	12,286
Amortization of debt issuance costs	(1,296)	(1,296)
Interest expense	<u>(52,420)</u>	<u>(55,675)</u>
TOTAL NON-OPERATING REVENUE	<u>648,016</u>	<u>645,723</u>
INCOME OR (LOSS) BEFORE CONTRIBUTIONS	306,749	315,952
Contributions, intergovernmental		
Berwick-Bayou Vista Joint Water Works	<u>(22,200)</u>	<u>(62,115)</u>
CHANGE IN NET ASSETS	284,549	253,837
NET ASSETS		
NET ASSETS - BEGINNING OF YEAR	<u>5,875,701</u>	<u>5,621,864</u>
NET ASSETS - END OF YEAR	<u>\$ 6,160,250</u>	<u>\$ 5,875,701</u>

St Mary Parish Water and Sewer Commission No 2
State of Louisiana
Comparative Statement of Cash Flows - Water and Sewer Enterprise Fund
Years Ended September 30, 2011 and 2010

Increase (Decrease) in Cash and Cash Equivalents

	<u>2011</u>	<u>2010</u>
Cash flows from operating activities		
Received from customers	\$ 931,595	\$ 943,220
Paid to suppliers and employees	<u>(834,093)</u>	<u>(1,143,890)</u>
Net cash provided (used) by operating activities	<u>97,502</u>	<u>(200,670)</u>
Cash flows from noncapital financing activities		
Ad valorem taxes	685,897	689,112
Cash from meter deposits	2,705	6,584
Advanced from other government units	6,928	1,982
Payment to Berwick-Bayou Vista Joint Water Works	<u>(22,200)</u>	<u>(62,115)</u>
Net cash provided by noncapital financing activities	<u>673,330</u>	<u>635,563</u>
Cash from capital and related financing activities		
Principal paid on bond	(60,000)	(60,000)
Interest paid on bond	(52,420)	(55,675)
Acquisition and construction of capital assets	<u>(590,630)</u>	<u>(196,993)</u>
Net cash (used) by capital and related activities	<u>(703,050)</u>	<u>(312,668)</u>
Cash flows from investing activities		
Sale (Purchases) of investment securities	(3,813)	67,151
Interest income	<u>14,539</u>	<u>12,286</u>
Net cash provided by investing activities	<u>10,726</u>	<u>79,437</u>
Net increase in cash and cash equivalents	78,508	201,662
Cash and cash equivalents at beginning of period	<u>466,554</u>	<u>264,892</u>
Cash and cash equivalents at end of period	<u>\$ 545,062</u>	<u>\$ 466,554</u>

	<u>2011</u>	<u>2010</u>
Reconciliation of operating loss to net cash used by operating activities		
Operating income (loss)	\$ (341,267)	\$ (329,771)
Adjustments to reconcile operating income to net cash provided by operating activities		
Depreciation	247,153	239,395
Amortize tower maintenance	39,453	39,453
Amortize debt issuance costs	1,296	1,296
(Increase) decrease in accounts receivable	(5,177)	6,174
(Increase) in inventory	(11,261)	(27,433)
Increase (decrease) in contracts payable	144,331	(48,490)
Increase (decrease) in retainage payable	25,399	-
Increase (decrease) in accounts payable and accrued expenses	35,566	(2,936)
(Increase) decrease in prepaid expenses	87	(2,347)
(Increase) in investment in Berwick-Bayou Vista	<u>(38,078)</u>	<u>(76,011)</u>
Net cash provided by (used in) operating activities	<u>\$ 97,502</u>	<u>\$ (200,670)</u>

Cash and cash equivalents are presented on the Comparative Statement of Net Assets as follows

	<u>2011</u>	<u>2010</u>
Current Assets		
Cash and cash equivalents	\$ 513,767	\$ 431,535
Restricted Assets		
General obligation bond debt service cash	1,867	11,336
Customer meter deposits cash	<u>29,428</u>	<u>23,683</u>
Total cash and cash equivalents	<u>\$ 545,062</u>	<u>\$ 466,554</u>

ST. MARY PARISH WATER AND SEWER COMMISSION NO. 2
STATE OF LOUISIANA

Notes to Financial Statements
September 30, 2011

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

On October 27, 2000, the St. Mary parish Council adopted Ordinance No. 1474 which created "St. Mary Parish Water and Sewer Commission No. 2, State of Louisiana (the Commission)" which is a political subdivision of the Parish of St. Mary and the state of Louisiana, with authority to plan, finance, construct, acquire, improve, operate and maintain water, sewer and sewerage disposal improvements within its designated boundaries. The Commission was created, by combining the former Waterworks District No. 2 and Sewerage District No. 2.

The accounting and reporting practices of the Commission conform to generally accepted accounting principles (GAAP) as applicable to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The Commission has not presented a Management's Discussion & Analysis (M D & A) that GASB has determined is necessary to supplement, although not required to be part of, the basic financial statements.

The following is a summary of the significant accounting policies used in preparing the financial statements:

A. Reporting Entity

In evaluating how to define the governmental unit, for financial reporting purposes, consideration has been given to the following criteria as set forth in GAAP:

- a. Financial benefit or burden
- b. Appointment of a voting majority
- c. Imposition of will
- d. Fiscally dependent

Based upon the above criteria, the Commission is a component unit and integral part of the St. Mary parish Council (the primary government).

These financial statements include only the operations of the Commission.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

B Basis of Accounting

The financial statements of the Commission are prepared on the accrual basis of accounting whereby revenues are recognized when earned and expenses are recognized when incurred. The Commission has elected not to apply Financial Accounting Standards Board provisions issued after November 30, 1989.

Enterprise Fund

An Enterprise Fund is used to account for the Commission's operations which are financed and operated in a manner similar to private business enterprises where the intent of the governing body is that the costs (expenses, including depreciation) of providing services to the general public on a continuing basis be financed or recovered primarily through user charges.

C Revenues

The following is a summary of the Commission's recognition policies for its major revenue sources:

Charges for water service come from metered sales to residential, industrial and municipal customers. Charges for sewerage service are based upon gallons of water used by customers. Revenues for water and sewer services are recognized in the month when the water is used by the customers.

Ad valorem taxes (which is based upon homesteads in the Parish) are recorded in the year the taxes are assessed and collected.

Investment earnings are recorded when earned.

Substantially all other revenues are recorded when they are earned by the Commission.

When both restricted and unrestricted resources are available for use, it is the Commission's policy to use restricted resources first, then unrestricted resources as they are needed.

D Expenses

Expenses are recognized under the accrual basis of accounting where liabilities are recorded at the time expenses are incurred.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

E Budgets and Budgetary Accounting

The St Mary Parish Water and Sewer Commission No 2 follows these procedures in establishing administrative budgetary accounting

- a An administrative budget is employed as a management planning and control device during the year for the Proprietary Fund The forecasted budget is prepared on a basis consistent with GAAP
- b These financial statements do not present budget and actual comparisons of the administrative budget because it is not a legally adopted budget

F Cash and Cash Equivalents and Investments

Cash and Cash Equivalents

For financial statement purposes, cash and cash equivalents include bank deposits and/or certificates of deposit with original maturates of less than three months

Investments

The Commission invests in bank certificates of deposit (CDs) and external investment pools The CDs (nonparticipating contracts) are recorded at cost, unless there is significant impairment of the credit standing of the issuer The pooled investments are recorded at amortized costs which approximate fair market value

G Receivables

Accounts receivable consist of amounts due from customers for metered water and sewerage usage The financial statements do not contain an allowance for uncollectible accounts receivable which is a generally accepted accounting principle Uncollectible receivables are charged off at the time information becomes available which would indicate the uncollectibility of the particular receivable The failure to utilize the allowance method to account for bad debts is not material to the financial statements

H Restricted Assets

Amounts received as utility deposits are held in separate accounts These funds are classified as restricted assets on the balance sheet because their use is limited

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

In accordance with the 2002 general obligation bond issue requirements, certain funds are accumulated in a sinking fund account that is restricted for the purpose of payment of the bond principal and interest

I Joint Venture

The Commission and the Town of Berwick jointly constructed a treatment plant to provide a water supply to each entity. Each participant has a 50% interest in the venture. The cost of constructing the plant was borne by the two communities, and they have appointed a board to operate and maintain the plant. The Berwick-Bayou Vista Joint Waterworks Commission was created to maintain, operate and administer the joint water treatment plant. The Commission has included its share of the joint venture cost and current operations in these financial statements using the equity method of accounting. See Note 9 for additional disclosure.

J Inventory and Prepaid Items

Materials and supplies inventory is valued at cost. Cost is determined primarily by the first-in, first-out method. Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in the financial statements.

K Property, Plant, and Equipment

Fixed assets including water plant, water and sewer lines, water towers, pump stations and all other water distribution and sewerage disposal assets are capitalized in the proprietary fund. Property, plant and equipment owned by the proprietary fund is recorded at cost or, if contributed property, at their market value at the time of contribution. Repairs and maintenance are recorded as expenses, renewals and betterments are capitalized. Interest has been capitalized during the construction period on property, plant and equipment in the proprietary fund.

Depreciation of all exhaustible fixed assets used by proprietary funds is charged as an expense against their operations. Accumulated depreciation is reported on proprietary fund balance sheets. Depreciation has been provided over estimated useful lives using the straight-line method.

The estimated useful lives are as follows:

Water Plant	20-40 years
Water distribution system	10-33 years
Sewerage distribution system	10-45 years
Buildings	10-40 years
Furniture and equipment	3-25 years
Automobiles and trucks	6 years

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

L Accumulated Vacation, Compensatory Time and Sick Leave

Accumulated vacation, compensatory time and sick leave are recorded as an expense of the period in which paid. At September 30, 2011 and 2010 unrecorded liabilities for the above are immaterial.

M Equity Classifications

Equity is classified as net assets and displayed in three components – invested in capital assets, net of related debt, restricted, and unrestricted. These classifications are defined as follows:

- Invested in capital assets, net of related debt – This component of net assets consists of capital assets net of accumulated depreciation and reduced by the outstanding debt that is attributable to the acquisition, construction, or improvement of these assets. If there are significant unspent related debt proceeds at year-end, the portion of debt attributable to the unspent proceeds are not included in the calculation of invested in capital assets, net of related debt. Rather, that portion of the debt is included in the same net assets component as the proceeds.
- Restricted – This component of net assets consists of constraints placed on net asset use through external constraints imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.
- Unrestricted net assets – The component of net asset consist of net assets that do not meet definition of "restricted" or "invested in capital assets, net of related debt."

N Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America require management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues, expenditures, and expenses during the reporting period. Actual results could differ from those estimates.

NOTE 2 - AD VALOREM TAXES AND MAINTENANCE MILLAGE ASSESSMENT

Ad valorem taxes attach as an enforceable lien on property as of January 1 of each year. Property taxes are levied each November 1 on the assessed value listed as of the prior January 1 for all real property, merchandise and movable property located in the Commission's boundaries. Assessed values are established by the St. Mary Parish Assessor's Office and the State Tax Commission at percentages of actual value as specified by Louisiana Law. Taxes are due and payable December 31 and are delinquent after that date with interest being charged. Lien date for all delinquent properties is April 1. The St. Mary Parish Sheriff bills and collects property taxes for the Commission using the assessed values determined by the tax assessor of St. Mary Parish. Commission property tax revenues are budgeted in the year billed.

The Commission authorized the following millages for the purpose of operating and maintaining the water and sewer system for the constituents of the Commission. The millage was dedicated as follows:

	<u>2011</u>	<u>2010</u>
Operations and maintenance	10.50	10.50
Debt service	<u>1.75</u>	<u>2.00</u>
	<u>12.25</u>	<u>12.50</u>

Based upon the taxable assessed value of the property within the District, each mil of assessment generated approximately \$56,000 and \$55,200 of tax revenues in 2011 and 2010 respectively.

NOTE 3 - CASH AND CASH EQUIVALENTS AND INVESTMENTS

The Commission does not have a formal investment policy related to interest rate risk (the risk of an investment decreasing in value due to increasing interest rates).

In addition, the Commission does not have a formal investment policy related to credit risk (including concentrations of credit). However, the Commission does follow state law as to limitations on types of deposits and investments as described below.

The Commission does not invest in any investments subject to foreign currency risk.

Cash and cash equivalents

Under state law, the Commission may deposit its funds with certain state and federally chartered financial institutions. These deposits are required to be insured or collateralized by the financial institutions.

NOTE 3 - CASH AND CASH EQUIVALENTS AND INVESTMENTS (continued)

At year end 2011 and 2010 the carrying amounts of the Commission's cash were \$545,062 and \$466,554 respectively and the bank balances were \$650,717 and \$480,335 respectively

In 2011 and 2010 the entire balances were covered by FDIC insurance

Investments

Under state law the Commission may invest in certain federal or federally guaranteed securities, certain bank time certificates of deposit, mutual or trust funds, and in the Louisiana Asset Management Pool (LAMP) LAMP is an external investment pool operated to allow local government to pool their investment funds LAMP is not registered with the SEC as an investment company LAMP is subject to regulatory oversight of the Louisiana State Treasurer and the LAMP board of directors Share values for the pool are valued at fair value based on quoted market rates determined on a weekly basis

The following is a summary of investments held by the Commission at September 30,

	<u>2011</u>		<u>2010</u>	
	Percentage of Total		Percentage of Total	
	<u>Amount</u>	<u>Investments</u>	<u>Amount</u>	<u>Investments</u>
LAMP (rated AAAm by Standard & Poors)	\$869,616	53%	\$873,485	53%
Money Market Accounts	237,073	14%	237,047	15%
Bank certificates of deposit Fully FDIC insured	450,000	27%	450,000	27%
Collateralized with securities held by financial institution's agent not in the Comm- ission's name	<u>93,006</u>	<u>6%</u>	<u>85,350</u>	<u>5%</u>
	<u>\$1,649,695</u>	<u>100%</u>	<u>\$1,645,882</u>	<u>100%</u>

As of September 30, 2011, all investments had maturity dates of one through five years except LAMP and the money market The money market accounts mature in less than one year LAMP determines its maturities using the weighted average maturity (WAM) method The WAM of LAMP assets is restricted to not more than 60 days, and consists of no securities with a maturity in excess of 397 days The WAM for LAMP's total investments is 49 days as of September 30, 2011

NOTE 4 - DUE TO/FROM OTHER GOVERNMENTAL UNITS

The following is a detail of due from/to other governments at September 30,

	<u>2011</u>	<u>2010</u>
Due to other governments		
Due to Berwick-Bayou Vista Joint Waterworks (water purchases)	\$34,406	\$29,369
Due to Joint Sewer Commission Wards 5 & 8 (Sewerage treatment fees)	23,050	20,494
Due to St Mary Parish Council (Intergovernmental service-garbage/mosquito fees)	<u>72,862</u>	<u>73,527</u>
	<u>\$130,318</u>	<u>\$123,390</u>

NOTE 5 - PREPAID WATER TOWER MAINTENANCE

The Commission periodically enters into contracts for the renovation and maintenance of its water towers. The Commission has determined the renovations last approximately 8 years. During 2005, the Commission completed renovations under a contract for its 200,000 gallon storage tank at a cost of approximately \$97,000. During 2004, the Commission completed renovations under a contract for its 500,000 gallon storage tank at a cost of approximately \$250,000. These costs will be amortized over 8 years. The unamortized portion of these costs of \$63,671 at 2010 and \$24,218 at 2011 is recorded in the financial statements as prepaid water tower maintenance.

NOTE 6 - PENSION PLAN

All employees participate in the Federal Social Security System. The Commission is required to remit an amount to the Social Security Administration equal to the employee's contribution. The Commission does not guarantee any of the benefits granted by the Social Security System.

In addition, the Commission contributes 5% of the gross wages of each qualified employee to their individual SEP/IRA Retirement Plan account on a monthly basis.

The Commission's contributions to the above plans was approximately \$14,000 in each of the years ended September 30, 2011 and 2010.

NOTE 7 - FIXED ASSETS

CAPITAL ASSETS

Capital asset and depreciation activity for the years ended September 30, 2010 and 2011 is as follows

	<u>Balance 9/30/2009</u>	<u>Increases</u>	<u>Balance 9/30/2010</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance 9/30/2011</u>
Capital assets not being depreciated						
Land, right of ways	\$ 51,709		\$ 51,709			\$ 51,709
Construction in process	39,416	\$ -	39,416		\$ 9,441	335,476
Total capital assets not being depreciated	<u>91,125</u>	<u>-</u>	<u>91,125</u>	<u>305,501</u>	<u>9,441</u>	<u>387,185</u>
Other capital assets						
Buildings	\$ 48,533		\$ 48,533			48,533
Distribution system - sewerage	4,260,004	89,811	4,349,815	105,422		4,455,237
Distribution system - water	3,620,280	107,182	3,727,462	189,148		3,916,610
Water Plant	838,485		838,485			838,485
Furniture & Equipment	113,787		113,787			113,787
Vehicles	27,911	-	27,911	-	-	27,911
Total other capital assets at historical cost	<u>8,909,000</u>	<u>196,993</u>	<u>9,105,993</u>	<u>294,570</u>	<u>-</u>	<u>9,400,563</u>
Less accumulated depreciation for						
Buildings	44,207	875	45,082	574		45,656
Distribution system - sewerage	1,990,505	118,345	2,108,850	120,360		2,229,210
Distribution system - water	1,719,259	112,327	1,831,586	118,494		1,950,080
Water Plant	838,485		838,485			838,485
Furniture & Equipment	84,357	5,399	89,756	5,276		95,032
Vehicles	15,666	2,449	18,115	2,449	-	20,564
Total accumulated depreciation	<u>4,692,479</u>	<u>239,395</u>	<u>4,931,874</u>	<u>247,153</u>	<u>-</u>	<u>5,179,027</u>
Other capital assets, net	<u>4,216,521</u>	<u>(42,402)</u>	<u>4,174,119</u>	<u>47,417</u>	<u>-</u>	<u>4,221,536</u>
Total capital assets, net	<u>\$ 4,307,646</u>	<u>\$ (42,402)</u>	<u>\$ 4,265,244</u>	<u>\$ 352,918</u>	<u>\$ 9,441</u>	<u>\$ 4,608,721</u>

Depreciation expense for the years ended September 30, 2011 and 2010 was approximately \$247,000 and \$239,000, respectively

NOTE 8 - LONG TERM DEBT

The following is a summary of long-term debt activity

Balance at September 30, 2009	\$1,080,000
Repaid during 2010	<u>60,000</u>
Balance at September 30, 2010	1,020,000
Repaid during 2011	<u>60,000</u>
Balance at September 30, 2011	<u>\$ 960,000</u>

A detail of long-term debt is as follows

\$1,400,000 of General Obligation Bonds, Series 2002 were issued in 2002 for the purpose of constructing and acquiring improvements to the waterworks and sewer plant and systems. The bonds bear interest at rates ranging from 5.0 percent to 6.0 percent and are payable through the year 2022. The bonds are being retired from the operating revenues and the portion of ad valorem taxes dedicated to debt service

\$960,000

Less current maturities	<u>(65,000)</u>
Long-term debt	<u>\$ 895,000</u>

Debt Maturity

Debt Service requirements at September 30, 2011, are as follows

<u>Year Ended</u> <u>September 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2012	\$65,000	\$48,820	\$113,820
2013	70,000	45,120	115,120
2014	75,000	41,476	116,476
2015	80,000	37,543	117,543
2016	80,000	33,443	113,443
2017-2021	475,000	97,390	572,390
2022	<u>115,000</u>	<u>3,161</u>	<u>118,160</u>
Total	<u>\$960,000</u>	<u>\$306,952</u>	<u>\$1,266,952</u>

The Commission is subject to certain affirmative and negative covenants pursuant to its bond agreement. These covenants include but are not limited to

1. Establishment and funding of certain debt service funds
2. Preparation and independent audit of financial statements
3. Restrictions on sale of property securing payments

NOTE 9 - RELATED PARTY - INVESTMENT IN BERWICK-BAYOU VISTA JOINT WATERWORKS COMMISSION

All of the water sold by the Commission is obtained from Berwick-Bayou Vista Joint Waterworks Commission (Joint Waterworks Commission). The Joint Waterworks Commission was created and established with the sole responsibility and duty to maintain, operate, and administer the joint water treatment plant for the Commission and Town of Berwick (Berwick). The water treatment plant was constructed and is owned by the Commission and Berwick. The Commission and Berwick appoint the members of the board for the Joint Waterworks Commission. The Commission's portion of the cost of the plant is carried in property, plant and equipment. Amounts reported as an investment in other assets represents the Commission's equity in the joint venture. Separate financial statements for the Joint Waterworks Commission are available from the Commission or the Joint Waterworks Commission. The following is a summary of selected financial information of the Joint Waterworks Commission:

	Year Ended <u>9/30/11</u>	Year Ended <u>9/30/10</u>
Total assets	\$1,152,730	\$1,077,359
Total liabilities	71,506	72,291
Total net assets	1,081,224	1,005,068
Total revenues	709,583	828,827
Total expenditures	633,427	658,978
Change in net assets	76,156	169,849

The Commission purchased the following quantities and amounts of water from the Joint Waterworks Commission:

	Year Ended <u>9/30/11</u>	Year Ended <u>9/30/10</u>
Gallons of water purchased	234,189,000	221,985,000
Cost of water purchases	\$274,086	\$269,357
Adjustment to cost of water purchases based on the Commission's pro rata share of Joint Waterworks Commission (increase) decrease in net assets related to operations	<u>8,760</u>	<u>(31,614)</u>
Net costs	<u>\$282,846</u>	<u>\$237,743</u>

NOTE 10 - COMPENSATION OF BOARD MEMBERS

Board Members received the following per diems for the years ended September 30, 2011 and 2010

	<u>2011</u>		<u>2010</u>	
	<u>Meetings</u>		<u>Meetings</u>	
	<u>Attended</u>	<u>Amount</u>	<u>Attended</u>	<u>Amount</u>
Herbert Adams, Secretary/Treasurer	9	\$2,296	8	\$2,296
Albert Hebert, Commissioner	12	2,296	12	2,296
Tony Hensgens, Commissioner	10	2,405	9	2,068
Erving Richard, Commissioner	8	2,296	10	2,308
Stan Robison, Vice President	12	2,296	12	2,296
Don Ryan, President	12	<u>2,992</u>	12	<u>2,992</u>
		<u>\$14,581</u>		<u>\$14,256</u>
Berwick-Bayou Vista Joint Waterworks Commission				
Erving Richard, Commissioner	10	\$ 720	9	\$ 720
Tony Hensgens, Commissioner	8	<u>720</u>	7	<u>720</u>
		<u>\$1,440</u>		<u>\$1,440</u>

NOTE 11 - RISK MANAGEMENT

The Commission is exposed to various risks of loss related to limited torts, theft of, damage to and destruction of assets, errors and omissions and natural disasters for which the Commission carries commercial insurance. There have been no significant reductions in coverage from the prior year and settlements of claims have not exceeded coverage in the past three years. See the insurance schedule included in the supplemental information section for risks covered by commercial insurance.

NOTE 12 - CONCENTRATIONS

The District received approximately forty percent of its revenues from ad valorem taxes in 2011 and 2010.

OTHER SUPPLEMENTAL SCHEDULES

**ST MARY PARISH WATER AND SEWER COMMISSION NO. 2
STATE OF LOUISIANA**

Schedule of Gallons of Water Purchased and Sold
and Number of Water Customers

For the year ended September 30, 2011 and 2010

(Unaudited)

	<u>9-30-11</u>	<u>9-30-10</u>
Gallons purchased for the period	234,189,000	221,985,000
Gallons sold for the period	157,797,340	155,410,960
Number of users at year end	1,904	1,909
Gallons not sold for the period	76,391,660	66,574,040
Cost per 1000 gallons purchased	\$1 17	\$1 21
Cost of gallons not sold	\$89,378	\$80,555
Percentage of gallons not sold	33%	30%

ST. MARY PARISH WATER AND SEWER COMMISSION NO. 2
STATE OF LOUISIANA

Water and Sewer Rates
September 30, 2011
(Unaudited)

The board of commissioners approved a water and sewer rate increase on April 14, 2008 effective May 1, 2008. The new rate is as follows:

Water	Sewer
\$6.00 flat fee (\$7.15 out of district)	\$6.00 flat fee (\$7.15 out of district)
\$2.00 (\$3.00 out of district) per 1,000 gallons of water used	\$2.00 (\$3.00 out of district) per 1,000 gallons of water used

For the period January 2007 to April 30, 2008, the water and sewer rates were as follows:

Water	Sewer
\$6.00 flat fee	\$6.00 flat fee
\$1.75 per 1,000 gallons of water used	\$1.75 per 1,000 gallons of water used

For the period October 1995 to December 31, 2006, the water and sewer rates were as follows:

Water	Sewer
First 3,000 gallons - \$6.00	\$7.00 flat fee
Over 3,000 gallons - \$1.90 per 1,000	\$1.15 per 1,000 gallons of water used

For the period October 1992 to September 30, 1995, the water and sewer rates were as follows:

Water	Sewer
First 3,000 gallons - \$4.75	\$6.00 flat fee
Over 3,000 gallons - \$1.17 per 100	\$1.00 per 1,000 gallons of water used

For period August 1988 to September 30, 1992, the water rates were as follows:

Water
First 3,000 gallons - \$4.00
Over 3,000 gallons - \$1.14 per 100

Prior to August, 1988 the water rates were as follows:

First 3,000 gallons - \$3.35
Next 3,000 gallons - \$1.05 per 1,000
Next 3,000 gallons - \$1.00 per 1,000
Next 3,000 gallons - \$.95 per 1,000
Next 3,000 gallons - \$.90 per 1,000
Next 3,000 gallons - \$.85 per 1,000
Next 3,000 gallons - \$.80 per 1,000
Next 3,000 gallons - \$.70 per 1,000

**ST. MARY PARISH WATER AND SEWER COMMISSION NO. 2
STATE OF LOUISIANA**

Insurance
September 30, 2011
(Unaudited)

<u>Insurer</u>	<u>Amount of Policy</u>	<u>Risk Covered</u>	<u>Expiration Date</u>
La Citizens Property Insurance Company	\$100,000	Building (600 Saturn Rd)	4/23/12
	\$25,000	Office building and contents (1333 Belview)	
	\$48,000	Warehouse and contents	4/23/12
Bridgefield Casualty Insurance Company	\$1,000,000	Worker's Compensation	4/23/12
St Paul Insurance Company	\$2,000,000	Comprehensive general liability	4/23/12
	\$1,000,000	Auto liability	4/23/12
	\$500,000	Crime coverage	4/23/12
United National Insurance Company	\$1,000,000	Public Management Liability	4/23/12

INTERNAL CONTROL, COMPLIANCE AND OTHER MATTERS



REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS

Board of Commissioners
St. Mary Parish
Water and Sewer Commission No. 2
Bayou Vista, Louisiana

We have audited the accompanying financial statements of the business-type activities and the major fund of St. Mary Parish Water and Sewer Commission No. 2 (the Commission) as of and for the year ended September 30, 2011, which collectively comprise the Commission's basic financial statement and have issued our report thereon dated February 27, 2012, which contains one additional paragraph. The paragraph states that management elected to omit Management's Discussion and Analysis that the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be part of, the basic financial statements. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to the financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the Commission's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements but not for the purpose of expressing an opinion on the effectiveness of the Commission's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Commission's internal control over financial reporting.

Our consideration of the internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies, or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying schedule of findings and questioned costs, we identified a deficiency in internal control over financial reporting that we consider to be a material weakness.

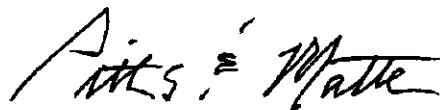
A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying schedule of findings and questioned costs as item 2011-1, to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Commission's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

The Commission's response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit the Commission's response and, accordingly, we express no opinion on it.

This report is intended solely for the use of the management of the Commission, the Legislative Auditor of the State of Louisiana and the Finance Committee of the St. Mary Parish Council, and is not intended to be and should not be used by anyone other than these specified parties. However, under Louisiana Revised Statute 24:513, this report is considered a public record and may be distributed by the Legislative Auditor.



CERTIFIED PUBLIC ACCOUNTANTS

February 27, 2012

St. Mary Parish Water and Sewer Commission No. 2
State of Louisiana

Schedule of Findings, Questioned Costs and Federal Awards
For the Year Ended September 30, 2011

A SUMMARY OF AUDIT RESULTS

- 1 The auditors' report expresses an unqualified opinion on the financial statements of the St. Mary Parish Water and Sewer Commission No. 2
- 2 Report on Internal Control and Compliance Material to the Financial Statements

Internal Control over Financial Reporting

There was one significant deficiency in internal control over financial reporting noted during the audit of the financial statements. This condition is reported as a material weakness.

Compliance and Other Matters

There were no instances of noncompliance nor other matters noted during the audit of the financial statements that are required to be reported.

3 Federal Awards

This section is not applicable for the year ended September 30, 2011.

B FINDINGS - FINANCIAL STATEMENT AUDIT

Material Weaknesses

ITEM 2011-1 - SEGREGATION OF DUTIES

Auditors' Comments

Condition While performing audit tests and inquiring about internal control, we discovered that there is little segregation of duties in the area of billings and collections

Criteria Ordinarily, the accounting duties performed in an organization are segregated to reduce possible errors or irregularities that could occur in the accounting records and not be detected

Effect Lack of segregation of duties results in a material weakness in internal accounting controls

Cause The Commission has limited personnel

Management's Comments We will constantly monitor the activity of the employees, in an effort to minimize any errors or omissions

C FINDINGS AND QUESTIONED COSTS - FEDERAL AWARD PROGRAMS

This section is not applicable for the year ended September 30, 2011

SUMMARY OF PRIOR YEAR FINDINGS AND RELATED CORRECTIVE ACTION
PREPARED BY ST MARY PARISH
WATER AND SEWER COMMISSION NO 2

INTERNAL CONTROL OVER FINANCIAL REPORTING AND COMPLIANCE AND
OTHER MATTERS MATERIAL TO THE FINANCIAL STATEMENTS

Internal Control

Material Weakness

Item 2010-1 Segregation of Duties

Condition While performing audit tests and inquiring about internal control, our auditors discovered that there is very little segregation of duties within the Commission's accounting function

Corrective Action The Board will constantly monitor the activity of the employees, in an effort to minimize any errors or omissions

INTERNAL CONTROL AND COMPLIANCE MATERIAL TO FEDERAL AWARDS

Not applicable to prior year

St Mary Parish
WATER & SEWER COMMISSION NO 2
P O BOX 635
PATTERSON, LA 70392-0635
985-395-2747

February 27, 2011

Mr Daryl Purpera, CPA, CFE
Legislative Auditor, State of Louisiana
P O Box 94397
Baton Rouge, La 70804-9397

Dear Mr Purpera

The St Mary Parish Water & Sewer Commission No 2 respectfully submits the following corrective action plan for our year ended September 30,2011

Person Responsible Don Ryan, President
St Mary Parish Water & Sewer Commission No 2

Time for completion September, 2012

Item 2011-1 Segregation of Duties

Finding

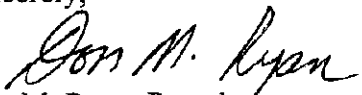
Our auditors noted that there is little segregation of duties in the area of billings and collections

Corrective Active

We will constantly monitor the activity of the employees in an effort to minimize any errors or omissions

If you have any questions concerning this corrective action plan, please contact me

Sincerely,



Don M Ryan, President
St Mary Parish